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Market Outlook:

Don't fear the unknown..

What's another 200 point down day (Dow) when you're having fun? The violent and excessive overreactions of the week prior were added to by Asia and Europe on Thursday/Friday past, just for good measure. It seems the events in Ukraine/Crimea occupy the mindset of investors worldwide. If you were to shake a can of soda you couldn't produce more froth and foam than we have here at these valuation levels. And, after all, this is what happens when there's nowhere to go but down. We can ill afford to tolerate any panic-mongering from media's talking-heads who claim they can "predict" the future. **There *will* be, and *should* be, shifts, rough spots, and cyclical events, but all the data now indicates that the tide is turning in favor of the bull.** Keep in mind, also, that the "rules" for trading stocks "at the top" are quite different than those strategies for trading *on the way up* to the top. Up here, the pace becomes more staccato, it's more of a stock pickers market. On the way up, it's a matter of asset allocation amongst sectors.

For the time being, the focus should revert back to fundamentals, not geopolitics.

In reality, the markets are keen to make every effort to eradicate manic responses, replacing spasms with a smoother curvature, while still trying to emphasize what's good about equity investing. An immersion into fundamentals (not to mention breaking the tedium of watching one's portfolio fluctuate daily with a changing mood) has to prevail in order to neutralize the hyperbole that my measurements have shown to be impeding an efficient flow of capital. The market must, instead, cut through the confusion and focus upon the fact that **economic data is getting better, interest rates (borrowing costs) are low, and pent-up investor expectation to see an economic rebound is profound and real.**

While we would prefer to see rational discourse and sound fiscal policy emanate from our political leaders, that is not likely to happen, putting the onus upon business and community leadership to maintain whatever economic momentum has thus far been created. Besides, most of what affects the economy is happening at the local level, anyway. So it is only logical that the remediation of underemployment, for example, should happen at "street level" businesses. Getting wages and employment to increase would be a nice first step towards dispelling a confidence crisis many citizens have about investing their assets in a casino mentality on Wall Street.

Economic inertia slows discretionary spending which, in turn, spills over into balance sheet analysis and earnings projections...thus immobilizing stock momentum. Within that framework, it is remarkable that the markets have been able to hold their valuations so far this year. Domestic political squabbling, middle-European unrest, and a reluctant-to-spend corporate boardroom seem to have conspired to negate the extremely good news that *the economy is climbing out from an abyss and building a sustainable, long term turnaround*. Before year-end I expect the markets to revert to a more traditional analytical conversation (infrastructure, biotechnology, ecology, energy, *e.g.*), to become more definitional, more mature, and to start focusing upon the metrics which make sustainable capital gains increasingly likely.

Without demand in the pipeline, however, all the rest is just talk.

...or rave about certainty

Part of those thematic discussions involves recognizing here at home the deleterious effect the Fed has had upon our economy by artificially manipulating and sustaining interest rates to historically low levels. Some might consider it counterintuitive, but the fact that we have achieved *any* growth coming out from the recession, and maintained a steady climb upwards in the process, is a function not so much of the successes austerity measures have had rescuing the "capitalist" agenda, but because the levels of regression in corporate investment had sunk so low that even miniscule improvement represented a relatively significant turnaround opportunity. **Low interest rates themselves, in fact, discourage consumer savings and capital expenditures and have not created the eruption of new discretionary spending the pundits had hoped for.** Hoarding cash might be fine for corporate stakeholders, but it fails to deliver new inventory into the sales channel and, of course, to the ultimate end-user, the consumer. On the other hand, holding cash in one's investment account is a proven allocation towards buttressing the volatile ebb and flow of a rudderless market.

I believe, however, that profits which derive from balance sheet alchemy and "productivity enhancements" (i.e. laying off employees) are not indicative of best social practices, nor are they good for brand loyalty and strategic success. Yes, there are "earnings" and there are *"earnings"*. But, then again, there are "mission statements", and there are *"morally bereft mission statements".*

What makes the art of portfolio management so unique is the process of determining which trends are sustainable, which are not, and ascribing a leading or laggard quantifier, or measurement, to their probabilities of generating portfolio alpha. I am loathe to overweight my client's portfolios with underperformers or to surf the crest of a wave that is likely to come crashing back down to reality.